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Xerox executive named 'best'

Robert R. Evans, director-employee benefit assets at Xerox Corp., Stamford, Conn., is the nation's "best and brightest" corporate pension executive, a *Pensions & Investment Age* survey shows.

Mr. Evans was named most often by money managers and investment management consultants who responded to a survey asking them to name the three pension executives they considered "the best and the brightest."

Robert E. Shultz, vice president-pension asset management at RJR Nabisco Inc., Winston-Salem, N.C., received the second largest number of nominations.

Myra R. Drucker, director-trust investments at International Paper Co., New York; W. Allen Reed, staff vice president-investments at Hughes Aircraft Co., El Segundo, Calif.; and George C. Weintz, investment counsel at Lockheed Corp., Calabasas, Calif., tied for third.

Tied for fourth were John B. Carroll, president GTE Investment Management Corp., Stamford, and Edward T. Tokar Jr., vice president-investments at Allied-Signal Inc., Morristown, N.J.

Douglas A. Love, director of research at BEA Associates and a former pension fund consultant, said the people selected "have enough experience to blend an appropriate amount of skepticism with a good grasp of fairly technical issues."

The respondents named 120 different pension executives as among the "best and brightest."

The survey, mailed to a carefully selected group of experienced money managers and pension consultants, asked them to nominate the best corporate pension executives with whom they

Continued on page 39

Robert R. Evans, Xerox director-employee benefit assets, was voted the top pension executive.

Pensions & Investment Age

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States moving on takeover laws

By Nicky Robertshaw

WASHINGTON — The aftershock of the U.S. Supreme Court ruling upholding an Indiana anti-takeover law is starting to be felt, with Delaware and California moving toward consideration of takeover bills and other states contemplating similar action.

And even though a recent study by the Securities and Exchange Commission staff suggests such legislation decreases shareholder wealth, Senate Banking Committee Chairman William Proxmire, D-Wis., has introduced legislation that would affirm state takeover statutes, giving such laws a further boost. (*See related story, Page 4.*)

With Delaware, where some 43% of all New York Stock Exchange companies are incorporated, expected to consider this type of legislation by the end of the month, the issue of state anti-takeover laws becomes an important one.

Under the Indiana law, shareholders were given 50 calendar days to consider a tender offer; federal law requires a minimum of 20 business days. The Indiana law also requires shareholder approval before a bidder holding a certain amount of stock can exercise voting rights on the stock.

While similar in concept to the Indiana statute, the Delaware bill would be based solely on where a company is incorporated. Among other things, the Delaware law would increase the tender offer period, set at a minimum of 20 business days by federal law, to 50 calendar days.

California state Sen. Dan McCorquodale last week proposed a far-reaching takeover law modeled after the Indiana statute. The law has some key differences — it requires an affirmative vote from shareholders to make it effective and applies to California corporations with more than 100 shareholders.

The bill is part of a package of corporate governance legislation, which also includes a bill that would make "greenmail" harder to pay. That second bill requires the approval of the board of directors and shareholders when more than 5% of a corporation's stock is purchased for more than fair market value.

"Delaware is trying to protect its biggest industry," said T. Boone Pickens, general partner of Mesa Limited Partnership, Amarillo, Texas, and founder of the United Shareholders Association.

"They're trying to be competitive with the other states that are passing these laws," he said, adding managements probably would move their companies' incorporations to other states offering more protection from takeovers.

Mr. Pickens said he believes the laws are bad for shareholders because they make it harder to unseat current management whose practices might be keeping stock values down.

Mr. Pickens' views are supported by the results of a study by the SEC chief economist's office, which examined the effects of a November 1986 Ohio statute on shareholder wealth. The office found of 37 Ohio corporations examined, share prices decreased "roughly 2%" while the Legislature considered laws designed to stop the attempted takeover of Akron-based Goodyear Tire & Rubber Co. by Sir James

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Inside:

LEASING: Airlines are doing it, some with the help of The CIT Group, one of the largest lessors of aircraft in the United States. Other companies are doing it too, and *P&I Age* tells how they are using this financing tool — Page 17.

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BCI bondholders balk at proposal for spinoff

By Marci Baker

CHICAGO — BCI Holding Corp.'s plan to spin off its consumer products and specialty food businesses into a separate company is running into head winds.

Before the deal can go through, BCI must gain approval from its bondholders to relax certain restrictive covenants of existing BCI bonds. Many of the bondholders are fuming over the terms of the waiver and are refusing to sign.

"I told them this thing doesn't border on an outrage. It really *is*," said one disgruntled pension fund adviser who holds the bonds.

"There's no way we're sending our waiver in," said a high-yield specialist. "It's an insult. They can't think we're that stupid to approve the changes on the current terms."

The waiver seeks to relax covenants in the bond indentures restricting the payment of dividends and other payments to equity investors. It also would soften the terms for repaying existing indebtedness, the degree to which BCI and subsidiaries can take on additional debt, and permit BCI to enter into service agreements with E-II Holdings, the name of the proposed spinoff.

In exchange for their consent to the amendments, bondholders would receive $2.50 per bond held.

BCI must gain waivers on 50% of each of the four tranches of bonds issued in the buy-out of Beatrice Cos. last year to approve the amendments and complete the spinoff.

BCI is seeking the changes to make some asset distributions to equity investors and give the company more operating flexibility, according to the consent solicitation statement circulated to bondholders.

Despite the sentiments of bondholders, expectations are BCI will get the necessary votes to put the amendments in force. But BCI likely will have to sweeten the terms of the waiver before it can reach the 50% threshold.

Kohlberg Kravis Roberts & Co., New York, took Beatrice private in April 1986 with $6.2 billion in financing from banks, equity partnerships and the placement of $2.5 billion of junk bonds.

Drexel Burnham Lambert Inc. placed the high-yield issues, which consisted of 11% 10-year senior notes, 12½% 12-year senior subordinated debentures, 12¾% 15-year subordinated debentures and 15-year floating-rate junior subordinated debentures.

The waiver documentation was mailed to bondholders June 5; the deadline for obtaining the waivers is June 19.

A BCI spokesman said it is too early to comment on any response to bondholders.

Dean Kehler, managing director at Drexel, which is adviser to BCI on the waiver, said it's too early in the process to determine what kind of approval rate the company is getting to the amendments.

"Legally, we couldn't talk to the bondholders until the appropriate documentation was out. We're just in the process now of talking to the bondholders to find out what they think and what they want."

BCI's management continues to show a willingness to listen to concerns by investors, Mr. Kehler said. He declined to say, however, whether the terms of the waiver ultimately would be changed.

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Market jitters may aid contrarians

By Fred Williams

Contrarian investment managers, after two years of lagging the market, are poised for a rebound and current market jitters may be just what they need to return to favor.

For the few acknowledged contrarians, who suffered through one of their worst years in 1986, the change for the better may be under way, according to consultants and plan executives who stuck with them through the bad times.

One reason for the rebound is the stocks toward which they lean — out-of-favor stocks, usually in financially troubled industries such as energy, oil field services, steel, metals and machinery — are finally making moves in the market after languishing for several quarters, or even years.

Investment strategists also claim contrarians hold their own better in down markets.

One of the problems, however, is in determining who is a contrarian and how many contrarians there are. Experts agree there are only eight to 10 major contrarian firms and some others camouflaged as value managers.

Among those most frequently mentioned as contrarians are Batterymarch Financial Management, Boston; Fraser Management Associates Inc., Burlington, Vt.; Meridian Management Co., Little Rock, Ark.; Robert E. Torray & Co., Bethesda, Md.; and Birmingham Capital Management, Birmingham, Ala.

Others sometimes included are Sanford C. Bernstein & Co. Inc., New York; United Capital Management, Denver; Donald Smith & Co. Inc., Paramus, N.J.; and Dreman Value Management Inc., New York.

The recovery among contrarians is still in the early stages, said Dennis Stattman, vice president-equities at Meridian, which had $279 million under management in tax-exempt assets as of Jan. 1.

"We're seeing a rotation in market leadership . . . metals, oil-field service companies, energy, steel, forest products, chemicals — these were areas a year ago that were totally out of favor and unpopular. Now, investors are starting to bid them up.

"Last year, the market leaders were disinflationary stocks which benefited from lower interest rates and inflation. Contrarians have a style that benefits from this type of shift," said Mr. Stattman.

For example, he said, oil-field service companies have been helped by rising oil prices and increased interest in drilling. Cost-cutting since 1982 has put most of these companies in a "survival strategy" that will result in "much higher profits as the industry rebounds."

Steel companies, too, have been through hard times, but a few are showing increased profits after several years of cost-cutting, modernization, payroll cuts and elimination of excess capacity.

These steps have resulted in "a much leaner industry . . . benefiting from higher levels of economic activity and reduced foreign competition because of the drop in the dollar. These companies are starting to make money again this year," said Mr. Stattman.

Among Meridian's holdings are **International Paper Co., Halliburton Co., General Motors Corp. and USX Corp.**

For 1986, Meridian returned 6.1%, compared with 18.7% for the Standard & Poor's 500 stock index. For the three years ended Dec. 31, it returned a compound annual 5.6% vs. the S&P's 18.5%, and for the five years, Meridian returned an annualized 18.9% vs. 19.9%. For the first quarter of 1987, Meridian returned 21.1% and the S&P, 21.4%.

Plan executives who deal with long-term investments claim it is unfair to judge contrarians on the short-term basis prevalent in some parts of the industry.

"I agree their time has come," said H.H. MacPherson, manager-investment and fi-

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3 at pension-related posts take new positions; 1 retires

Three executives with a say in multibillion-dollar pension funds have taken new jobs, two of them moving to investment management firms, and a fourth has retired.

Beverly L. Hamilton was appointed third deputy comptroller of the $30 billion New York City Retirement Systems. The former assistant vice president-investor relations for the $6 billion United Technologies Corp. pension fund assumes her new duties June 24.

Carl W. Strayer, director-pension investments at Hartford, Conn.-based UTC, retired May 31.

A replacement has not yet been named for Ms. Hamilton; there will be no successor to Mr. Strayer.

Bill Rutherford, Oregon state treasurer and chairman of the $8 billion Oregon Investment Council, which oversees the state Public Employes Retirement System, is resigning June 30 to become an executive vice president with ABD International Management Corp., New York.

And Michael J. Finn, assistant director a[illegible] head of venture capital at the [illegible] billion Michigan State Employees' Retirement Systems, Lansing, will join Sears Investment Management Co., Chicago, as investment portfolio manager of the venture capital division.

Ms. Hamilton's new duties will include work in the management of all the city systems' assets, which are in fixed income and equity. She will report directly to Comptroller Harrison J. Goldin.

But her first duty will be to complete the restructuring of the New York City systems' equity portfolio.

She assumes the post vacated by Marvin L. Damsma in March. Mr. Damsma is now director of the $2.8 billion pension fund of Amoco Corp., Chicago.

Jon Lukomnik, a spokesman for the city systems, said Ms. Hamilton will complete Mr. Damsma's earlier work in restructuring the equity portfolio, which accounts for about 25% of the systems' total assets. Before joining Amoco, Mr. Damsma had completed restructuring the fixed-income portfolio, which entailed the hiring or retention of some 21 managers (*Pensions & Investment Age*, Feb. 9).

Mr. Lukomnik said a timetable and specifics of the equity restructuring will be determined by Ms. Hamilton. She was not available for comment.

Jack R. Meyer, chief investment officer of the Rockefeller Foundation and a former New York systems deputy comptroller who counseled the city in replacing Mr. Damsma, called Ms. Hamilton "a terrific find." Prior to joining UTC, she worked as head of the securities products group for Morgan Stanley Asset Management Inc., New York, as an assistant trust officer with Manufacturers Hanover Investment Corp. and in the trust department at ITT Corp., New York.

Mr. Lukomnik said the hiring

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Bill Rutherford will leave the Oregon Investment Council; Beverly Hamilton will join the N.Y. City Retirement Systems.

World Bank sets up crossing network

By Marlene Givant

NEW YORK — With 60% of its assets indexed globally, the $2.6 billion World Bank pension fund has devised its own crossing network to save money on tactical asset switches.

When the World Bank wants to reduce its equity position, it sells stocks from its index funds directly to other pension funds investing in index funds. Thus, neither party incurs transaction costs.

Swapping assets for cash flow internationally can save a fund up to seven percentage points a year if a portfolio turns over by 100% per year. Domestically, it can save 50 to 100 basis points, said Hilda Ochoa, chief-pension investments at the $2.6 billion pension fund. She would not identify the fund's crossing partners.

What's more, using indexed international stock and bond funds, World Bank pension officials are starting to develop a forward market in international equities to reduce price uncertainty during tactical shifts.

They also take forward and futures positions to reduce exposure to currency and interest rate risk.

A futures contract is an agreement to buy or sell a specific amount of a financial instrument at a particular price at a stipulated date. A forward transaction refers to the actual purchase or sale of a specific quantity of a security or foreign currency at a price specified now, with delivery and settlement at a specified date. Because a forward contract is a completed contract, unlike an option, it can be used to buy back futures contracts previously sold.

The fund's tactical asset allocation strategy has succeeded in boosting investment returns through short-term asset allocation switches.

In the 6½ years since officials began a strategy of managing the fund's asset and

Continued on page 40

Hilda Ochoa, chief-pension investments at the World Bank fund.

The *P&I Age* monthly indexes track the changes in the Standard & Poor's 500 stock index, the Frank Russell Co.'s Russell 3000 stock index, the Ryan Index of fixed-income securities and the Shearson Lehman Government/Corporate bond index.

P&I Age May indexes

	Latest mo.	Year to-date	Trailing 12 mos.
S&P 500	0.85	21.31	21.16
Russell 3000	0.62	19.29	16.32
Ryan Index	−0.39	−3.08	4.15
Shearson Lehman Gov't./Corp.	−0.44	−1.66	6.39

Source: Rogers, Casey and Barksdale Inc., and Frank Russell.

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GM eyeing swap in Latin America

By Marci Baker

General Motors Corp., Detroit, is considering a $100 million swap of Latin American debt for equity to further capitalize its operations south of the border.

If it carries out the swap, the automaker would join a growing list of U.S. companies taking advantage of the secondary trading market for Latin American debt to build up operations there.

Corporate finance

Some observers predict such activity will heat up as a result of decisions by Citibank, New York, and other lenders to lesser developed countries to increase loan loss reserves and engage in swap transactions to reduce exposure to Third World loans.

"We've been looking seriously at (LDC debt conversions) for some time," said a GM spokesman who declined to comment on anything more specific.

Sources said, however, the company is working with Manufacturers Hanover Trust Co., New York, on a $100 million debt-for-equity swap of Mexican loans, which would be used to further capitalize manufacturing operations in that country.

In a typical swap transaction, the company purchases outstanding Third World loans from lenders at a substantial discount to their face value. It then presents the debt to the local government, which redeems it for local currency at the prevailing exchange rate. The company uses the proceeds of the transaction to infuse capital into existing operations, make acquisitions or help finance new projects.

Corporate officials and investment bankers say the transactions often offer the cheapest, most attractive mechanism to finance activities in developing nations. At the same time, the investments can help stimulate economic growth and foster employment for the countries.

"U.S. corporations are very substantial players in the secondary market," said John Simone, executive vice president in the international investment banking unit at Manufacturers Hanover.

"Activity is definitely on the rise."

Chrysler Corp., Highland Park, Mich.; Ford Motor Co., Dearborn, Mich.; Nissan Motor Co. Ltd., Tokyo; and Rohm & Haas Co., Philadelphia, are among the corporations investing in these countries through debt-for-equity swaps.

More recently, American Express Bank, New York, entered into an agreement with the Mexican government to convert $100 million of debt to

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World markets await Greenspan's impact

By Marlene Givant

Institutional investors are uncertain about how Alan Greenspan's appointment as chairman of the Federal Reserve Board will affect world currency and stock markets.

The possibility of a further dollar drop is intensifying some managers' fears of a Japanese stock market correction while others think the dollar is near bottom, regardless of Mr. Greenspan's appointment.

And at least one analyst believes currency fears caused by Mr. Greenspan's replacement of Paul A. Volcker will cause Japanese investors to slice their U.S. bond investments, sending a flood of assets into the Tokyo stock market.

But Harold Smith, president of the more than $1 billion Young Men's Christian Association retirement fund, New York, believes the change will more heavily affect the deutsche mark than the yen.

Expecting the mark to stabilize this summer under Mr. Greenspan's reign, the fund's in-house managers are buying 10-year French franc government bonds, which have higher interest rates than deutsche mark bonds, yet still would benefit from a fall in German interest rates because of France's heavy trade with Germany, according to Mr. Smith.

Other managers and plan executives interviewed were less certain about the impact of Mr. Greenspan's appointment on international currency and stock markets, especially Japan, for several reasons.

- Mr. Volcker, who left June 2, has been hailed for slashing inflation to less than one-third its average rate of 12.8% in 1979 and 1980, but Mr. Greenspan's anti-inflation know-how has not been established. Investor fears of inflation as well as uncertainty about whether U.S. interest rates will rise could cause a further drop in the dollar.
- Mr. Greenspan might have to raise interest rates more than Mr. Volcker would to stabilize the dollar, "until he gains the markets' confidence," said Christian Wignall, senior vice president at G.T. Capital Management, San Francisco, which manages $800 million for tax-exempt clients.
- Mr. Greenspan's hard-to-classify economics approach and his tendency to answer questions with few words aggravate investor uncertainty.
- The Fed might be less independent under Mr. Greenspan because of his ties to the White House, according to Rudi Leuthold, managing director of J.P. Morgan Investment Management Inc., London, which runs $11.7 billion in international assets, almost all for tax-exempt clients. This could cloud Fed policy with party goals.
- On May 27, Mr. Greenspan said the dollar would fall further, but when he was named Fed chairman, he said the dollar had fallen enough.

"How can investors make a judgment when (Mr.) Greenspan changes his mind in seven days?" asked Pierre Henchoz, chief of the investment management section of the nearly $7 billion United Nations Joint Staff Pension Fund, New York.

But YMCA's Mr. Smith said he thinks under Mr. Greenspan, West Germany will stimulate its economy and stabilize its currency.

"The U.S. feels it has achieved all it can achieve with Japan. I think it's quite clear the pressure is now going to be on the German mark. The whole attention of our government will be on the deutsche mark's relationship to the dollar," Mr. Smith said.

"Germans are very inflation conscious — reluctant to take stimulatory steps in fiscal or monetary policy. Mr. Greenspan might encourage them to reduce interest rates further in order to lower pressure on the dollar via the mark.

"The dollar-yen (relationship) is probably going to stabilize between 140 and 145. We've been at that level most of the past month — a surprise to many people. It appears there's some equilibrium there."

Michael Tintelnot, vice president and general manager of Capital Management International GmbH of Deutsche Bank, New

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Numbers games used to claim proxy victory

By Marcia Parker

Corporate management and institutional investors that sponsored anti-poison pill resolutions this year all are claiming victory now that the 1987 proxy season has come to a close.

Both sides are claiming moral victory because of a disagreement over methodology in the proxy area: Should success be measured in terms of the percentage of votes cast, or as a percentage of total outstanding shares? In addition, different ways of measuring abstentions also influence the hotly contested numbers game.

The disagreement carries over to the sensitivity each side has toward what the proposals are called, with proponents preferring "shareholder rights," and opponents, "poison pills."

And the tension underlying the proxy-counting contest promise issues between management and shareholders is far from over.

Confident of their achievements during their first proxy season as full-fledged activists, institutional investors are preparing strategic plans for making their presence as shareholders felt throughout the year.

Some are considering asking chief executives to meet with them frequently to review performance. Others are looking at lobbying outside directors to monitor companies — in effect, serving as watchdog for large shareholders.

At least one large public fund may target six "underperformers" and make a special effort to persuade management to do more to boost the value of the company for shareholders.

All are considering whether to

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Summary of voting results of shareholder rights proposals

Company	Proposal sponsor	% institutional ownership 12/31/86	Georgeson & Co. Report - % voting for proposal (with abstentions) as a % of outstanding	Georgeson & Co. Report - % voting for proposal (with abstentions) as a % of shares voting on proposal	IRRC % voting for proposal (no abstentions) as a % of outstanding	IRRC % voting for proposal (no abstentions) as a % of shares voting on proposal
AMR	CalSTRS	71	27.4	37.9	45.9	54.1
American Cyanamid	CREF	58	19.8	28	28.4	71.6
Anheuser-Busch	CalSTRS/CalPERS[1]	53	10.4	15.9	16.4	83.6
Champion International	Carpenters	61	19.9	30.7	33.2	66.8
Colgate-Palmolive	CalSTRS/CalPERS	45	13.8	21.4[3]	21.4	78.6
Control Data	CalSTRS	69	18.4	28.9	29.7	70.3
Eaton	CREF	54	24.8	32.6	32.7	67.3
Emery Air Freight	State of Wisconsin	48	26	33.9	41.4	58.6
Federated Department Stores	CREF	73	27.8	36.2	36.2	63.8
Great Northern Nekoosa	CalSTRS/CalPERS	68	28.6	40.2[4]	40.2	59.8[6]
Honeywell	CalSTRS/CalPERS, State of Wisconsin	67	12.9	25.5[3]	25.5	74.5
Hospital Corp. of America	CalSTRS/CalPERS	61	24.5	35.1	35.8	64.2
International Paper	CREF	56	18.7	26.3	27.7	72.3
Kraft	CalSTRS/CalPERS	50	15.5	22.4[3]	22.4	77.6
Kroger	CalSTRS/CalPERS	35	17	22.4	22.4	77.6
Louisiana Land & Exploration	CalSTRS/CalPERS	67	19.9	25	27.1	72.9
McDonald's	CalSTRS/CalPERS	57	25.3	32.3	35.4	64.6
Mobil	Individual	45	20.1	27.2	27.2	72.8
Monsanto	CalSTRS/CalPERS	63	20.8	26.8	30.8	69.2
NCR	CalSTRS/CalPERS	66	21.6	26.4	29.9	70.1
J.C. Penney	CREF	61	25.3	29.2	31.5	68.5
Pitney Bowes	CREF	68	23.9	32.6[3]	32.6	67.4
Raytheon	CREF	60	20.9	30.2	30.2	69.8
Santa Fe Southern Pacific	Individual	44	14	20.1	20.1	79.9
Schering-Plough	CREF	60	19.7	27.1[3]	27.1	72.9
Texaco	CalSTRS/CalPERS	42	16.7	26.9[3]	26.8	73.2
Unisys	CalSTRS/CalPERS	67	12.5	28.7[3]	22.3	77.7
United Technologies	CREF	54	24.3	28.3	32.9	67.1
Upjohn	CalSTRS/CalPERS	59	26.8	34.5	40	60
USG	CalSTRS/CalPERS	43	[2]	[2]	27.9[5]	72.1[5]
USLife	CalSTRS/CalPERS	53	18.5	25.1	26.2	73.8

[1] California Teachers'/California Public Employees'
[2] Not voted at meeting
[3] Without abstentions
[4] Using total quorum
[5] The proponent did not appear in time
[6] The company provided these figures

Bill would protect pension surplus in takeover

By Nicky Robertshaw

WASHINGTON — A major Senate tender-offer reform bill would forbid corporations from using surplus pension assets to finance a takeover for five years after a change in control of the corporation.

In introducing his long-awaited Tender Offer Disclosure and Fairness Act of 1987 on June 4, Senate Banking Committee Chairman William Proxmire, D-Wis., said as a result of takeovers, "American workers are plundered even when they are not terminated." He cited federal statistics that found $12 billion in pension surpluses have been diverted to corporate raiders.

As of May 4, corporations have recovered $15.65 billion in surplus assets from their pension plans since 1980, with another $853 million in excess assets in pending terminations, according to the Pension Benefit Guaranty Corp.

Mr. Proxmire pointed to a plan by Darien, Conn.-based Schick Co., which recently took over Reeves Brothers Inc., Spartanburg, S.C., to terminate Reeves' pension plan and use $25 million in surplus funds to repay debt incurred in the takeover (*Pensions & Investment Age*, March 23). "None defended this plan," including the company, its bankers and its advisers, Mr. Proxmire noted in remarks in the Congressional Record.

An AFL-CIO official applauded the bill. "The workers' pension money should not be used to finance takeovers," said Larry Smedley, associate director of the union's department of occupational safety and health and social security. Since raiders often look at surplus pension assets as a partial inducement for takeovers, "pension funds should not be separate from the question of takeovers," Mr. Smedley said.

"It's absolutely the right thing to do," said Leigh Trevor, a Cleveland attorney who is president of Stakeholders in America, a group of corporate executives. "It's outrageous to permit pension assets to be used to finance the equivalent of a Falkland Islands military operation on a corporation."

He added the bill limits access by both outside corporate raiders as well as management seeking to take the company private.

"What bothers me most is that it's making pension policy on a piecemeal basis," said Seth H. Tievsky, an attorney with The Wyatt Co.'s research and information center in Washington. He pointed out terminating or establishing a pension fund is purely a non-fiduciary duty, and that a blanket five-year ban on reversions "is potentially unmanageable because it doesn't take into account changed business circumstances, for example."

"Cash is cash, and if you have a certain amount of money in general corporate funds, how do you know if it's the $20 million from reversions or from somewhere else?" said George Cowles, senior vice president of Bankers Trust Co. and a member of the Association of Private Pension and Welfare Plans' executive committee.

He said the first issue to address is whether the pension surplus belongs to the employees or to the company. "If it belongs to the company, then it's just another corporate asset."

While the Senate bill, S. 1323, is the primary vehicle for tender-offer reform in the Senate, its counterpart in the House, H.R. 2172, introduced by Energy and Commerce Committee Chairman John M. Dingell, D-Mich., does not mention the pensions issue. The subject, however, is expected to come up during hearings.

One reason the House bill lacks a pension provision is jurisdictional; legislation related to pensions is under the aegis of the House Education and Labor Committee.

One complaint about the Senate bill, hearings on which are scheduled for June 23-25, is that its focus on correcting takeover abuses includes insider trading and doesn't fully address the problem of pension reversions, according to Alan Reuther, associate general counsel for the United Auto Workers, Washington. "This might solve one small subset of the problem but it does not address it comprehensively."

"I wish they would take (the pension clause) out of the Proxmire bill," said Robert A.G. Monks, president of Institutional Shareholder Services Inc., Washington. "This is a serious question and it is more appropriate in terms of jurisdiction to be part of the pension law."

Separately, the Reagan administration has proposed altering funding rules of the Employee Retirement Income Security Act to both make it easier for employers to withdraw surplus assets from their pension plans and toughen funding rules for underfunded plans.

The Proxmire bill also calls for allowing pension fund investment managers — both internal and external — to reject a tender offer without violating their fiduciary duties under ERISA. This means fund managers could take a more long-term view and wouldn't be forced into supporting corporate raiders.

Yet a focus on short-term results is something dictated more by the desire of money managers to p'ease their clients than ERISA, said Mr. Cowles.

The Proxmire bill, in addition to the pension fund provision, calls for an array of takeover reforms including more complete and prompt disclosure by corporate raiders, tougher penalties for insider traders and bans on "greenmail," "golden parachutes," "poison-pill" provisions not approved by shareholders and other controversial takeover activities. ■

Corrections & clarifications

• **NCNB National Bank**, Charlotte, N.C., is not getting out of the custodial business, as was reported incorrectly May 4. NCNB has 125 separate corporate custodial accounts and is looking for more, a bank executive said.

• The five-year median return for the period ended March 31 was omitted from the bar charts for the **PIPER** equity funds in the May 18 issue. The figure is a compound annualized 24%.

• In a June 1 article, the company Hiram F. Moody Jr. will join was misidentified. It is the **Home Insurance Co.**, New York.

• The 1985 median composite return stated for **Management Asset Corp.**, Westport, Conn., was reported incorrectly in a June 1 story. The correct figure is 24.6%.

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Payden & Rygel index of short maturity assets*

(for month ended May 31)

	May 1987	Quarter ended 3/31/87	Year to date	12 months ended 5/31/87	Yield level monthly change*
		Unannualized total returns			
90-day					
U.S. Treasury bill	0.4493	1.4350	2.3955	6.0029	15
Domestic C.D.	0.5583	1.5125	2.5249	6.3631	19
Eurodollar C.D.	0.5858	1.4925	2.5376	6.4974	15
180-day					
U.S. Treasury bill	0.4437	1.3950	2.2571	6.1840	20
Domestic C.D.	0.5079	1.3875	2.1198	6.0959	22
Eurodollar C.D.	0.5347	1.3075	2.1055	6.2453	20
1-year					
U.S. Treasury note	0.3351	1.2850	1.7226	6.2402	26
2-year					
U.S. Treasury note	0.0840	1.2275	0.3489	6.0991	31

*Figures are unannualized total returns. Year-to-date and 12-month figures linked monthly. 90- and 180-day Treasury bill yield level changes on discount basis.

[a]Basis points.

Source: Payden & Rygel, Los Angeles

Disbursement . . .

Continued from page 13

ing attractive prices," said Ms. Rollins.

Forrest Johnson, senior vice president of Phoenix-Hecht, Research Triangle Park, N.C., said another reason for the drop in prices is the higher degree of automation the banks are using as part of their controlled disbursement product.

"It's less dependent on a phone call or a series of phone calls than before," said Mr. Johnson. "Other cash management services, such as lockboxes, are more labor-intensive."

Other executives said banks also have become more sophisticated in analyzing the costs of the services they offer. With a firmer grasp on expenses, bank officials can adjust the prices for various services accordingly.

Although the drop in disbursement prices may mean significant savings for a corporation, many executives said the total situation should be examined before agreeing to switch disbursement banks.

"We're not making decisions strictly on price because I think that would be a false economy for us," said David E. White, supervisor of treasury operations at ICI Americas Inc., Wilmington, Del. ICI Americas is in the process of reviewing both its disbursement and collection systems (*P&I Age*, May 4).

"I just don't think (pricing) is the No. 1 relevant factor," he said, adding quality is the important factor.

Mr. Johnson said corporate executives should be wary of hidden disbursement costs.

"For a corporation, it's the total cost of the disbursement system that is important," he said. While the per-item charge may be lower, other costs, such as account maintenance charges, might keep the total cost the same or possibly increase the expense. ■

Bethlehem . . .

Continued from page 13

which are targeting their suppliers, Bethlehem is promoting the change first among its customers.

Messrs. Robinson and Price said Bethlehem isn't requiring its customers to adopt X12; and until the companies all do, it will continue to operate various systems to communicate trade information in the form a customer prefers, from paper to any specific electronic formats.

Mr. Price said customers, as well as Bethlehem, can cut costs by using the X12 standard. Although computer-to-computer communication for ordering is more efficient in general by eliminating clerical work and errors from rekeying paper-based data, he said the variety of electronic formats now in use mean both customers and suppliers have to have different software programs for transactions with different companies or different industries. In addition, electronic data interchange, especially under the standard X12 format, facilitates trade relations and communications in the current just-in-time inventory environment, requiring frequent ordering.

Although the use of corporate electronic trade payments gets a lot of attention, proponents of electronic data and funds transfer, such as the Automobile Industry Action Group, a Detroit-based trade organization, and others have noted the greatest saving in the ordering process comes from communicating all the trade information electronically rather than the actual payment.

Bethlehem's electronic data communication is integrated with the company's accounting, meaning the ordering transaction automatically is updated in its accounting system and the steel company doesn't have to rekey data from customers.

Although orders and shipments are made through its steel plants, Bethlehem's accounts payable system is centralized and sent out from its Pennsylvania headquarters where records indicate which communication format — paper, proprietary electronic, or X12 electronic — a customer prefers. ■

Pensions & Investment Age will publish profiles and a ranking of the largest international money management firms in the June 29 issue.

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Leasing

Leasing meets range of companies' needs

By Brad Rudin

From the simple to the exotic, from the tax-driven to the purely economic, leasing gets high marks from equipment users because it meets a wide range of needs.

An informal telephone survey of lessors and lessees backed up predictions the leasing industry would thrive despite the Tax Reform Act of 1986.

The survey by *Pensions & Investment Age* covered such equipment as airplanes, computers, furniture, rail cars and power plants.

By cutting tax rates, eliminating the investment tax credit and slowing depreciation for some property, Congress reduced leasing's tax advantages.

But Congress also gave leasing a boost by establishing an alternative minimum tax that encourages some equipment users to lease because ownership generates depreciation write-offs that are added to alternative minimum tax calculations. By leasing from a lessor that can use depreciation write-offs, lessees get these tax benefits through lower lease rates.

Even the legislation eliminating the investment tax credit creates opportunities for tax-advantaged leasing. While repealing the investment tax credit for equipment placed in service after 1985, Congress also established transition rules governing the use of investment tax credit carry-forwards to taxable years beginning after Dec. 31, 1986. The rules require the phase-in of a 35% reduction in the value of the credit that is carried forward.

General Electric Credit Corp., Stamford, Conn., urges equipment users to accelerate the use of investment tax credit carry-forwards into earlier tax years so they can reduce the amount of the reduction. Sale-leasebacks can accelerate the use of these carry-forwards because the transaction creates a "tax liability, and, thereby, increases the potential for using more ITC carry-forwards in the year of sale," according to a pamphlet published by the GECC.

Still, much of the leasing industry's recent growth comes from the non-tax advantages that lessees enjoy, according to the 1987 U.S. Industrial Outlook published by the Department of Commerce. The percentage of lease deals motivated by tax advantage — 60% in 1984 — is falling, according to the report.

How tax reform will affect the lease/buy decision remains uncertain for many users.

"We're analyzing that right now," said Thomas D. Marion, assistant treasurer at the Trailer Train Co., Chicago. "We're not sure how we're going to come out."

The non-tax attributes of leasing — 100% financing, off-balance sheet treatment of lease payments, maintenance contracts and a hedge against technological obsolescence — have stimulated much of the leasing industry's recent growth, the report says.

The sale-leaseback of big-ticket assets offers another advantage. "Companies are realizing that they are sitting on assets that are worth something," said Madeline Bayliss-Allen, vice president at The CIT Group/Equipment Financing Inc., Livingston, N.J., which provides asset-based financing and leasing to equipment manufacturers and users.

"To me, it is the commercial equivalent of what is happening in the home equity finance market. Whoever is the owner of those assets is converting the value of those assets to some form of capital that they can use for other purposes."

Competition among lessors has sparked another advantage for equipment users: Some lessors are offering aggressive rental rates, basing the rates on unrealistic estimates of the equipment's residual value.

"There are people out there who are desperate for transactions, who are willing to go below where it makes financial sense," said Harvey Kinzelberg, chairman of the Meridian Leasing Corp., Deerfield, Ill.

There is a wide range of motivations behind leasing deals.

For example, Aetna Life & Casualty, Hartford, Conn., last year completed a $9 million leveraged lease transaction that was structured by First NH Resources Inc., Boston. That transaction financed the use of Steelcase office furniture.

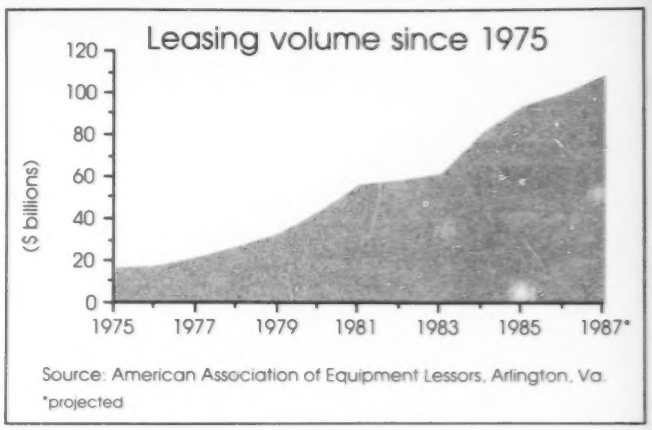
Leasing furniture makes sense under the accounting rules that govern the insurance industry, said Joseph P. Herzog, Aetna's director of corporate finance, because buying furniture erodes the surplus that governs how much business an insurance company can write.

Getting financing that would be allowed under the covenants of an industrial development revenue bond was the reason for a $4.6 million master lease facility entered into late last year by the West Co., Phoenixville, Pa. The manufacturing company decided to lease equipment because leasing is not counted against the $10 million project finance cap that governs the recipients of development bond proceeds, said Fred C. Lohrum, president of BancBoston Leasing Co., Boston.

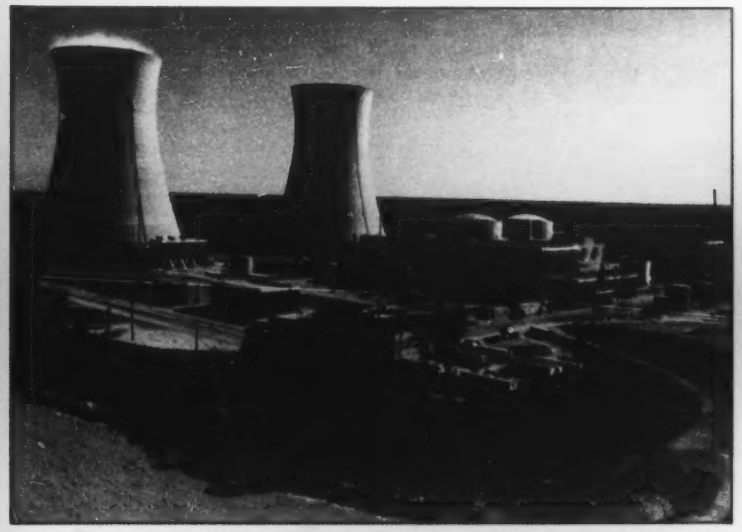
In a much bigger lease transaction, American Airlines made commercial aviation history with a "rent-a-plane" agreement with Airbus Industrie and the Boeing Commercial Airplane Co.

The March 1987 deal, valued between $2.2 billion and $2.5 billion, gives American the right to return 15 planes to Boeing and 25 to Airbus during the first 10

Continued on page 20



Source: American Association of Equipment Lessors, Arlington, Va.
*projected



Leasing can translate into savings for some companies. A utility used a sale/leaseback arrangement for part of its interest in a nuclear power plant to save its customers money. Transportation companies often lease equipment to free capital for other uses.

The top 10 in leveraged leasing

Company	Total volume ($ mils.)	Underwriters
Northwest Airlines	760.1	First Boston; Bankers Trust
Catalyst Energy Development	706.9	Drexel Burnham Lambert; Goldman, Sachs
Public Service Co. of New Mexico	575	Kidder, Peabody; Drexel Burnham Lambert; Goldman, Sachs
Bethlehem Steel	495	Morgan Guaranty Trust; Goldman, Sachs
Arizona Public Service	491.3	First Boston
Fred Meyer	397.7	Goldman, Sachs
Delta Air Lines	384.1	Citicorp
IBM Credit[1]	367	Merrill Lynch Capital Markets
American Airlines	344.3	Merrill Lynch Capital Markets; Salomon Brothers; PaineWebber; Babcock & Brown Financial; Bankers Trust
Western Air Lines[2]	314.7	PaineWebber; Salomon Brothers

[1] Partnership between IBM Credit and outside investors
[2] Merged with Delta September 1986
Source: IDD Information Services Inc., New York

Capital plentiful for transactions

By Brad Rudin

Capital for privately placed lease transactions will be plentiful in 1987, creating opportunities for equipment users, according to investment bankers.

Airline and utility companies, which dominated the list of major lessees in 1986, will reap the benefits of this surfeit of capital.

"For 1987, the supply of equity dollars vastly exceeds the supply of deals," said Donald R. Kendall, a managing director at Drexel Burnham Lambert Inc., New York. "Market rates are very, very competitive today and there are not enough leasing transactions available."

The excess of equity largely results from the expanded role of utility companies and banks in the leasing business.

Utility companies that have finished major projects look at equity positions in leasing deals as attractive investments. Banks have taken a greater interest in leasing deals because they seek tax-advantaged investments to replace the shelter on tax-exempt bond interest income that Congress killed in the Tax Reform Act of 1986.

Bruce E. Walenczyk, a vice president at Kidder Peabody & Co., also offered a bright assessment for the opportunities awaiting equipment users. "It's a good time to be a lessee."

Leasing offers a 400 to 500 basis-point advantage against other borrowing rates for equip-

Continued on page 21

A new market for leases

Securitization of receivables has bright future

By Brad Rudin

Publicly traded securities based on lease receivables may be poised for a second stage of growth as lessors, investment bankers and investors learn more about this 2-year-old financing instrument.

"It's my view that over an extended period of time — perhaps five or 10 years — the securitization of receivables will become a way of life in our industry," said Joseph J. Carroll, chief financial officer of The CIT Group, Livingston, N.J., the asset-based financing unit of Manufacturers Hanover Corp., New York.

He likened the future of securitized lease receivables to the development of the mortgage-related market, which grew slowly in the 1970s before becoming entrenched this decade.

Joseph J. Carroll, chief financial officer of The CIT Group.

John R. Zacamy, Morgan Stanley & Co. managing director.

Mortgage-related securities spawned products based on other assets — credit card receivables, car loans and lease receivables.

These non-mortgage products, first issued in 1985, are known as asset-backed securities.

Although growth has been slow — the volume of publicly traded lease-based deals rose only 12.3% in 1986 to $380 million compared with the 734% increase in all asset-backed securities to $10.3 billion — new players and products are expected to hit the public capital markets this year.

For example, Morgan Stanley & Co., New York, which previously has not been lead manager of an asset-backed issue, plans to introduce a securitized lease deal. Although John R. Zacamy, a managing director, would provide no details, he said, "It will be like no other structure."

Officials at Salomon Brothers Inc., the second-ranked investment bank in the receivable-backed market, have hopes of doing deals based on car lease receivables. If Salomon underwrites a car lease deal in the public market, it would be the first such transaction done by a Wall Street firm.

While officials at first-ranked First Boston Corp. expect the volume of publicly offered securitized lease receivables to reach $1 billion this year, John E. Graham, a vice president at Morgan Guaranty Trust Co., New York, said officials there tend "to think the private end of things is going to be where the development is going to happen most rapidly."

The private market has more potential for growth "because the public deals are just not at this point flexible enough to allow for some of the nuances in leasing," Mr. Graham said, noting changes in a deal are easier to make with the small number of lenders who invest in the typical private transaction.

Securitization of lease receivables has attracted the interest of lessors, investors and investment bankers.

"Any financial services company is a user of funds," said Edward C. Bray, group manager of the finance and real estate group at Fitch Investors Service Inc., New York. "They are interested in every avenue available to raise money."

For the investor, the securities offer a chance to buy highly rated debt with a substantial yield advantage at a time when A-rated corporate paper is becoming an endangered species.

Although concerns about liquidity have restrained institutional investors' participation in this market, once money managers "understand the credits and have some confidence that the markets are broad enough and liquid enough to deal in them, they'll be there," said Lawrence S. Harris, senior vice president in charge of fixed-income management at Alliance Capital Management Corp., New York.

For investment bankers, the securitization of lease receivables means underwriting and trading opportunities.

Among the benefits of securi-

Continued on page 22

Underwriting volume of publicly traded securities based on receivables ($ mil.)

	1986	1985
Lease-backed securities	380.15	338.3
Asset-backed securities*	10,268.5	1,231
Mortgage-related securities	57,475.9	19,727.7

*receivable-based car loans, credit card debts and leases

Source: IDD Information Services Inc., New York, and Standard & Poor's Corp., New York

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Plentiful . . .

Continued from page 17

ment that qualifies for grandfathered investment tax credits and favorable depreciation deductions, Mr. Walenczyk said, adding the advantage shrinks to about 200 basis points for equipment that lacks favorable depreciation treatment and eligibility under the transition rules governing the investment tax credit.

Because of the increased competition, lessors are offering more favorable fixed-price purchase options, said Richard A. Sun, vice president at First Boston Corp., New York.

Debt financing for leasing deals is also in good supply, said Gregory Clifford, a managing director at Smith Barney, Harris Upham & Co., New York. Debt investors are as comfortable with leasing transactions as they are with ordinary private placements, he said.

In a leveraged lease, the equity investor typically provides between 20% and 40% of the capital needed to buy the equipment. The equity investor, also called the lessor, enjoys all the tax benefits flowing from ownership even though the equity stake is less than 100%. Debt investors, who have no recourse to the lessor in the event of default by the lessee, put up a majority of the financing. The loan is secured by the lenders' claims on the equipment.

The now-repealed investment tax credit as well as depreciation deductions and deductions for interest used to fund the investment have been the primary tax advantages for lessors, which have passed these benefits through to equipment users in the form of lower rates.

Because of the transition rules governing the investment tax credit, the tax advantages of leveraged leasing will continue through 1987, said Drexel's Mr. Kendall. In 1988, however, the number of tax-driven big-ticket deals will decline substantially.

Utility companies will continue to do sale-leasebacks because these transactions enable the companies to make rate requests that are more likely to be granted by state regulatory agencies, Mr. Kendall said. Utility companies often face regulatory resistance to the hefty rate increases that result from the construction of large power plants.

Of the 10 equipment users that did the greatest volume of leveraged leasing in 1986, three are utilities, according to data compiled by IDD Information Services Inc., New York.

- In December 1986, Catalyst Energy Development Corp., New York, sold the Springerville (Arizona) Unit 1 coal-fired generating plant in a $705 million sale-leaseback. Catalyst acquired the Springerville unit in June when it bought the Alamito Co., Tucson, Ariz., increasing the value of the acquisition to stockholders by selling the Springerville plant.
- In 1985 and 1986, Public Service Co. of New Mexico, Albuquerque, sold its interest in the nuclear-powered Palo Verde units 1 and 2, Wintersburg, Ariz., to investors in transactions that totaled $325 million in 1985 and $575 million in 1986. The sale-leasebacks allowed the company to reduce a significant portion of its highest cost first-mortgage debt and preferred stock. The Palo Verde complex provides power to six utility companies.
- Arizona Public Service Co., Phoenix, sold and leased back part of the Palo Verde Unit 2 in two 1986 transactions that were expected to save customers more than $130 million.

Equity financing of nuclear power plants could become more difficult because the big investors in these projects may be reluctant to increase their exposure to this kind of deal, said Kidder's Mr. Walenczyk. "I just wonder when their appetite is going to be tapped out." ■

Search slated

WASHINGTON — The $750 million American National Red Cross retirement plan is planning a search for small-capitalization stock managers late this summer, according to William Rose, director of treasury operations.

One or more firms will be selected and funded from a reduction in existing equity accounts or termination of an equity manager. ■

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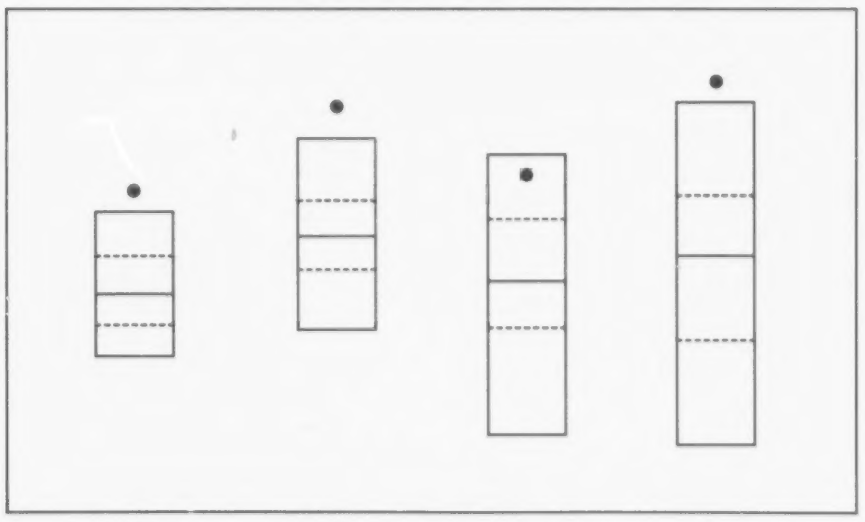

	10 Years	5 Years	3 Years	1 Year
CCI Return (●)	19.9	26.4	21.9	27.3
SEI Ranking*	3	1	7	1
S&P 500	13.8	19.9	18.5	18.7

Annualized Rates of Return
**Source: SEI Funds Evaluation*
***Past results do not assure future performance.*

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New market . . .

Continued from page 19
tization are:
- elimination of interest rate and maturity risk;
- new source of funds;
- riskless fee income from the servicing of sold receivables;
- removal of sold assets from the balance sheet;
- improvement of financial measurements resulting from the reduction of balance sheet assets and liabilities with the retention of servicing income; and
- financing costs that are competitive with conventional debt financings, especially when the cost of equity is figured in.

Stephen T. Whelan, a partner in the law firm of Thacher Proffitt & Wood, New York, offered more reasons for lessors to consider securitization. Because the Tax Reform Act of 1986 reduces the benefits associated with equipment ownership, equity investors in lease deals are not expected to dominate them as in recent years, Mr. Whelan said. Debt will become a more important aspect of equipment financing.

Also, securitization reduces financing transaction costs because uniform commercial code filings and searches are less important than in conventional financings, he said.

Another advantage is the deals' flexibility. A lease that contains a lessee-oriented provision such as early termination might be difficult to finance conventionally, but financing that lease in a pool of more than 100 leases dilutes the risk of such a provision, Mr. Whelan said. And reduced risk results in competitive rates.

Still, lessors have been relatively slow to sell their receivables in the public capital markets.

Notes backed by lease receivables first were sold in the public markets in March 1985 when Sperry Lease Finance Corp. issued $192 million of 11% lease-backed notes due 1991.

Sperry Lease Finance is a bankruptcy-remote subsidiary formed by what was then Sperry Corp. to issue lease-backed securities. In a bankruptcy-remote relationship, the assets held by the finance subsidiary would not be subject to creditor claims if the parent came under the protection of the bankruptcy code.

In September 1985, Sperry Lease Finance sold an additional $146 million of 9.45% lease-backed notes due 1991. And in December 1986, it sold $174,450,000 of 7.05% lease-backed notes due 1992. First Boston lead managed all those deals.

John E. Graham, Morgan Guaranty Trust Co.

Photo by Arnie Adler

Stephen T. Whelan of Thacher Proffitt & Wood

In the Sperry offerings, the parent company — now Unisys Corp. — sold assets to the subsidiary. Sperry Lease Finance then issued "pay-through" debt secured by pools of lease receivables.

(The "pay through" structure is where the debt is the liability of the issuer and is secured by the cash flow of the lease receivable. It differs from the "pass through" approach, in which investors have an equity interest in receivables held by a grantor trust.)

Although unconsolidated for bankruptcy-law purposes, the two entities are consolidated for tax purposes. As a result, the parent company retained the tax benefits on the equipment sold to the subsidiary. Sperry did not recognize a gain or loss on the sale for accounting purposes.

A proposal by the Financial Accounting Standards Board to consolidate majority-owned subsidiaries with the parent company would bar parent companies from pushing assets off their books once the sale of the receivables to the subsidiary is complete.

By reducing the amount of total assets for accounting purposes, parent companies have been able to report better returns on assets. Consolidation "makes one of the selling points a little more difficult," said David Sayles, an associate at First Boston Corp.

But in cases where pass-through certificates are issued — such as in the case of General Motors Acceptance Corp. — consolidation would actually encourage the securitization of assets, said Morgan Stanley's Mr. Zacamy.

General Motors Corp., after consolidation with GMAC, would have balance sheet liabilities it might want to pay down by selling auto loan receivables.

Besides Sperry, the only other long-term public transaction based on lease receivables was the Goldome Bank, Buffalo, N.Y., offering of $205.7 million of 6.6% certificates due 1991.

Asked about the slow growth in the volume of lease-receivable securities, Morgan's Mr. Zacamy said many large financial institutions with lease subsidiaries need the high-yielding assets now on their books. "They are not about to shrink the business."

David Roe, chief financial officer at Xerox Credit Corp., Stamford, Conn., said he remained wary of securitized lease transactions because these deals might restrict the lessors' freedom to negotiate with customers. While the customer wants an agreement that offers maximum flexibility concerning the disposition of the equipment, the investor favors restrictions that ensure a stable cash flow. "The investor doesn't care; all they want is their money," Mr. Roe said.

At BancBoston Leasing Co., Boston, President Fred C. Lohrum offered a similar concern about the restrictions securitization might impose on lessors. "We want the flexibility to control the situation." ■

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Lease decisions . . .

Continued from page 18
tax will find leasing more attractive, or less unattractive. Further, the longer a business expects to pay the alternative minimum tax, the more attractive leasing becomes.

This is because the alternative tax tends to flatten out the tax advantage previously enjoyed by equipment owners relative to lessees. In the new tax environment, the alternative minimum tax pretty much eliminates accelerated depreciation by treating it as a tax preference.

Tables 3 and 4 show the cumulative tax shield generated by leasing and borrowing to buy for two different tax scenarios. In Table 3, the evaluating business expects to fall in the regular tax system at all times during the foreseeable future. Not surprisingly, the tax shield available under borrowing to buy in this case is created faster than under leasing, which increases the present value of ownership tax benefits.

If the evaluating firm expects to fall into the alternative minimum tax for the first five years, and to fall into the regular tax system thereafter, however, the tax results are shown in Table 4.

Note how the difference in tax shield between leasing and borrowing has been virtually eliminated until year six, when the firm has to "make up" the difference between the 20% alternative minimum tax and the 34% regular tax. By deferring the tax shield advantage of borrowing to buy, the present value cost advantage is diminished as well.

The present value cost differences between leasing and borrowing to buy for a number of tax system assumptions are shown in Table 5. The analysis supporting these values uses the debt displacement lease/buy model.

If the evaluating firm is a regular taxpayer, buying has a lower present value cost of $4,175. If the firm estimated it would pay the alternative minimum tax for one year and be a regular taxpayer thereafter, the present value cost advantage declines to $3,720. The longer a firm expects to pay the alternative minimum tax, the less attractive ownership becomes.

Leasing becomes more advantageous in this example if the expected excursion into the alternative minimum tax exceeds four years. ■

Professor Johnson, the author of "The Fundamentals of Finance for Equipment Lessors," teaches finance at Northern Illinois University.

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Numbers . . .

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make anti-takeover devices like poison pills an issue again next year. They may challenge other common defenses such as staggered boards and fair price amendments.

Thirty-three shareholder resolutions challenging poison pills at various companies were filed this year by the $37 billion California Public Employees' Retirement System, Sacramento; the $52.3 billion Teachers Insurance and Annuity Association — College Retirement Equities Fund, New York; the $19.4 billion California State Teachers' Retirement System, Sacramento; the $13.5 billion State of Wisconsin Investment Board, Madison; and a few others.

None of the resolutions passed, although they did garner a vote count some would call significant. But the two camps are far apart when it comes to how to interpret the tallies.

Proxy sponsors insist they attracted an impressive level of support this year. Proxy solicitors, corporate executives and attorneys who represent client companies that were targeted say the resolutions didn't fare well at all.

"We think we did very well this year — we shot for 10% or 20% and we got 35% in some cases. The relationship between institutional investors and corporate management has changed. Large institutional investors have become a factor. We won't go back to being silent investors," declared Jose Arau, principal investment officer for the California employees fund.

Martin Lipton, the outspoken New York attorney from Wachtell, Lipton, Rosen & Katz who has long opposed these resolutions, is equally adamant in his view that the resolutions failed abysmally.

"As we reach the end of the May annual meeting season, it is clear the Council of Institutional Investors has suffered a stunning defeat in its proxy campaign against the poison pill," Mr. Lipton told clients in a memo May 26.

He called on the Securities and Exchange Commission to require groups of institutional investors with more than a 5% aggregate stake to file a 13D form with the agency "disclosing who they are and what they are up to."

A 13D must be filed when an investor acquires 5% or more of a company in connection with a tender offer.

Ian Lanoff, a Washington attorney with Willkie, Farr & Gallagher and secretariat of the Council of Institutional Investors, some members of which sponsored anti-pill resolutions, was angered by Mr. Lipton's comments, calling them "total bull----."

"Why is he trying to whip corporate clients into a frenzy when council members and other nonmember pension funds have tried to work with corporate managements? I don't think corporate executives are buying his venomous attack," Mr. Lanoff said.

He said the poison pill campaigns were fashioned by individual pension funds, not the council as a group, and he took issue with Mr. Lipton's suggestion that a 13D filing be required.

"The 13D filing is made in connection with an effort to acquire and take control of a company. Council members do not think we have the legal authority to act in concert and we weren't acting in concert," he said, adding the California public employees fund and the Wisconsin board are members, while TIAA-CREF is not.

Mr. Lanoff said the council members have said all along they want to be long-term stockholders in corporations and that they challenged the poison pills mainly on the ground they were put into place without being submitted to a shareholder vote.

Clearly, both proxy sponsors and corporate managements want to claim triumph during this year's season.

Proxy solicitors and their clients believe voting results should always be stated in terms of the percentage of outstanding shares. Looking at it that way, the votes on the shareholder proposals challenging poison pills appear to have garnered little support.

Data from Georgeson & Co. Inc., a New York proxy solicitation firm, show the vote tally both ways, but as a percentage of the outstanding vote, the tally ranges from 10.4% to 25.3%. (*See accompanying table.*)

"The vote as a percentage of outstanding vote is the truest measure of shareholder support," said John Wilcox, managing director and executive vice president at Georgeson.

Like his colleagues, Mr. Wilcox said the other two options — stating the vote as a percentage of the overall quorum or as a percentage of the shares cast on a particular proposal, are often misleading.

Using the percentage of shares voted, the anti-pill resolutions netted a low of 16.4% of the vote in one contest and a high of 41.4% in another.

Proponents of shareholder proposals, who usually state the results in terms of the number of shares cast on their proposals, are vehement that the proxy solicitors' habit of expressing the vote as a percentage of the outstanding shares is just as misleading.

"When it comes to approval, all that matters is the number of for and against votes cast," said James Heard, executive director of the Investor Responsibility Research Center, a Washington research group that tracks corporate governance issues. "Using the percentage of outstanding drops the level of support."

Perhaps the most closely watched poison pill contest was at International Paper Corp., New York, which put up a strong fight to keep the CREF-sponsored proposal off the ballot.

CREF's resolution netted about 9.8 million votes for, 25.5 million against, and 1.8 million abstentions. There were 52.4 million shares outstanding. By stating the results in terms of the number of votes cast, about 26.3% favored the CREF proposal. As a percentage of outstanding shares voted, the tally was 18.7%.

There are a few other problems with the numbers. Some votes include abstentions and some don't. Some tabulators count the abstention vote as the difference between the quorum figure (the total number of votes represented at the meeting) and the sum of the for and against vote. Others count the abstentions as only the boxes marked abstain. The SEC doesn't count abstentions.

Mr. Heard believes the high abstention rates — 2% to 20.4% — that occur in some cases mean money managers who cast ballots for their corporate pension fund clients don't want to vote against management so they abstain.

Most money managers deny they abstain, but they acknowledge this year there was more pressure from top executives, many of whom asked their money managers to let them review any votes that would be cast against the managements of companies. Many money managers said they avoided the problem by letting corporate managements cast the ballots. ■

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